

Congressman Sam Graves (MO-06)
Testimony before the House Science Committee on Environment,
Technology, and Standards
June 28, 2005

Thank you, Mr. Chairman, for allowing me to testify before this Subcommittee on the vital need to protect small businesses backed by venture capital. As chairman of the House Small Business Subcommittee on Rural Enterprise, Agriculture, and Technology I know the importance of venture capital to small businesses, particularly small biotech companies. I appreciate you holding this hearing.

Venture capital funding is critical to the small biotech companies. They provide the needed “seed” money to help get some of these innovative ideas off the ground and running. Without this investment, given the nature of the biotech industry, it would be very difficult to finance this process. These small businesses are providing this country with the ideas and innovation that has become the identity of the United States. Without these thoughts and ideas, the United States will fall behind the rest of the world in innovations and breakthroughs. Unfortunately, these small companies and venture capitalist are being locked out of promising investment; investment that is needed in rural communities across the country.

The Small Business Innovation and Research (SBIR) program is a federal program administered by the Small Business Administration (SBA). The program allocates a specific percentage of all federal research and development grant monies to small business applicants. This program allows for cutting-edge research that may not, in its earliest stages, attract funding from other sources.

Eligibility requirements to the SBIR program are murky at best. According to the SBA, to be eligible for a grant, a small company must be at least 51 percent owned by one or more individuals. For a while this requirement gave the small businesses backed by venture capital access to this critical “seed” money. However, the SBA recently ruled that “individuals” would exclude investment made by venture capital. This rule change resulted in the disqualification of many small biotechnology firms engaged in promising research towards tomorrow’s cures.

As you know, I recently introduced H.R. 2943, the *Save America’s Biotechnology Innovative Research Act of 2005 (SABIR)*. Specifically, this bill will allow small, venture capital-backed companies to be eligible for the

SBIR program as long as no single venture capital fund has a majority interest in the company, and the fund is not owned by a large firm.

But this legislation is larger than that. Not only does H.R. 2943 restore small business access to this essential program, but also it further encourages venture capitalists to provide critical investment in the future of this country. It is the research that these companies are doing that leads to technological innovations, keeping the U.S. at the forefront of discovery.

Mr. Chairman, it is imperative that venture capital-backed small businesses are not locked out of the SBIR program. Small biotech companies are unique in that it costs millions of dollars just to begin research. These companies rely greatly on both venture capital, and the SBIR program. It is this combination of funding that will lead to advancements in fighting cancer, diabetes, and research in other fields.

Mr. Chairman, I thank you for allowing me this opportunity to discuss this issue before your committee and I commend your efforts. I would like to offer my continuing participation in any future actions you may take to help small businesses.